

Message Text

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ACTION NEA-16

INFO OCT-01 EUR-25 EA-11 ISO-00 CIAE-00 DODE-00 INR-10

NSAE-00 PA-04 RSC-01 USIA-15 PRS-01 SP-03 AEC-11

AID-20 CEA-02 CIEP-02 COME-00 EB-11 FEA-02 FPC-01

H-03 INT-08 L-03 NSC-07 OMB-01 PM-07 SAM-01 SCI-06

SS-20 STR-08 TRSE-00 DRC-01 /201 W

----- 059389

R 070650Z MAY 74

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 2966

INFO AMEMBASSY NEW DELHI

AMEMBASSY RANGOON

AMEMBASSY PARIS

AMEMBASSY SINGAPORE

AMEMBASSY LONDON

AMEMBASSY ABU DHABI

AMCONSUL CALCUTTA

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E.O. 11652: N/A

TAGS: ENRG, BG

SUBJ: PETROLEUM EXPLORATION: FINAL NEGOTIATIONS UNDERWAY

REF: A. DACCA 1150 B. DACCA 1413 C. DACCA 1918

D. DACCA 1919 E. ABU DHABI 461

SUMMARY: LETTERS OF INTENT ON OIL EXPLORATION OFFSHORE BANGLADESH MAY BE SIGNED IN COMING WEEK. TERMS DEMANDED BY BDG HAVE STIFFENED APPRECIABLY, AND NUMBER OF APPLICANT COMPANIES HAVE DROPPED OUT, INCLUDING FRENCH, ITALIANS, MANY CANADIANS, AND PERHAPS OCCIDENTAL. ATLANTIC RICHFIELD AND UNION OF CALIFORNIA STILL IN RUNNING, ALSO JAPANESE PETROLEUM DEVELOPMENT CORP.

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1. BRINGING STORY FORWARD FROM LAST OVERALL REVIEW (REF A), VARIOUS SOURCES IN DACCA REPORT LETTERS OF INTENT WILL BE SIGNED BY BDG IN COMING WEEK WITH FOREIGN COMPANIES SEEKING TO EXPLORE OFFSHORE BANGLADESH. AHMEDNEZA-OFFICER ON SPECIAL DUTY, MINISTRY NATURAL RESOURCES, WHO HAS RE-EMERGED AS KEY FIGURE FOLLOWING ELEVATION HEDAYET AHMED TO ACTING SECRETARY AND FINAL DEPARTURE KERAMET ALI (REF B)-HAS TOLD US THERE WILL BE SIX TO TEN ALLOTTEES. AREAS TO BE ASSIGNED NOT LARGE, AMOUNTING TO TOTAL OF SOME 35,000 SQUARE MILES OFFSHORE, OUT TO 200 METER LINE OR ROUGHLY ALONG EDGE BANGLADESH CONTINENTAL SHELF AS DEFINED ON BDG MAP SUPPLIED LAST YEAR (DACCA MEMO 8/24/73- NOTAL). THIS WOULD BE WELL WITHIN ECONOMIC ZONE RECENTLY DECLARED BY BDG (REF C).

2. FOREIGN OIL-COMPANY SOURCE INDICATED BDG INVITED SOME 16 FOR CURRENT DETAILED NEGOTIATIONS. OF THESE, SIX OR SEVEN WERE, IN WORDS OF CANADIAN HIGH COMMISSION, "CANADIAN FIRMS FROM HOUSTON", MOSTLY HEADQUARTERED IN CALGARY. INCLUDED WERE CANADIAN SUPERIOR, HUSKY AND HOMESTEAD. NEXT LARGEST GROUP WAS US, WITH ACCORDING TO ONE SOURCE SIX CANDIDATES-WE KNOW OF ONLY FOUR: ATLANTIC RICHFIELD, UNION OF CALIFORNIA, ASHLAND AND OCCIDENTAL (REF B). OTHER COUNTRIES REPRESENTED BY SINGLE COMPANIES-JAPAN (JAPANESE PETROLEUM DEVELOPMENT CORP.), FRANCE (CFP), ITALY (AGIP), AND YUGOSLAVIA (STATE COMPANY). LATTER TWO ARE NEW ENTRANTS; ROMANIA, PREVIOUSLY CITED (DACCA 565), NO LONGER MENTIONED.

3. OUR INFORMANTS CONFIRMED THAT BDG HAS RAISED BARGAINING TERMS SIGNIFICANTLY, ALONG LINES LAID OUT IN NATURAL RESOURCE MINISTER'S PRESS INTERVIEW (REF D). THAT STATEMENT DESIGNED LARGELY FOR INTERNAL CONSUMPTION, TO REASSURE PEOPLE'S REPUBLIC OF BANGLADESH THAT BDG NOT REPEAT NOT GIVING AWAY "NATIONAL TREASURE" TO IMPERIALIST FOREIGN PRIVATE FIRMS BUT IS RETAINING "COMPLETE" CONTROL OF OPERATION, PRODUCTION AND PROFIT IN OIL/GAS EXPLORATION AND DEVELOPMENT. CONCERN OF BDG OVER SIGNING UP WITH ANY PRIVATE FOREIGN COMPANY; EXAMPLE OF WHAT LIBYA HAS GOTTEN AWAY WITH, AS PERCEIVED HERE; WHAT RECENT TEAM TO PERTAMINA IN INDONESIA (REF A) HAS LEARNED; AND SOARING WORLD PRICE OF OIL WHICH BD TRANSLATES INTO EVER-RISING INCOME IT CAN EXPECT FROM OIL DISCOVERY-ALL THESE FACTORS HAVE APPARENTLY COMBINED TO PERSUADE BDG TO TOUGHEN TERMS. INDONESIA EXPERIENCE PARTICULARLY TELLING-ONE US COMPANY OFFICIAL SAID THAT REZA STRUCK IN INDONESIA BY NEW UP-NOTCHING OF LOCAL-LIMITED OFFICIAL USE

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GOVT. SHARE TO 90 PERCENT OF PROCEEDS FROM "PROFIT" OIL WHEN PRICE RISES ABOVE \$6 A BARREL. OIL OF COURSE HAS NEVER BEEN DISCOVERED IN BANGLADESH, BUT BDG HAS CHOSEN TO IGNORE INDONESIAN TECHNIQUE OF ESCALATING DEMANDS CONTRACT BY CONTRACT AND IS IN EFFECT "STARTING AT TOP".

4. REVIEWING REPORT OF NEW TERMS IN MINISTER'S PRESS INTERVIEW, REZA ADVISED AS FOLLOWS:

A. PRELIMINARY JOINT RECONNAISSANCE SURVEY WOULD BE STAGED, AS MINISTER STATED. HOWEVER WOULD NOT BE BY JOINT POOL OF ALLOTTEE COMPANIES, AS MINISTER SAID, BUT BY SINGLE OUTSIDE COMPANY, JOINTLY FINANCED BY THE ALLOTTEES. RECONNAISSANCE AND EVALUATION OF DATA WILL TAKE SIX MONTHS, REZA ASSERTED. THEN DETAILED SURVEYS WILL BE DONE BY EACH ALLOTTEE IN AREA ASSIGNED. REZA REPORTED THAT NO OFFSHORE BLOCKS HAVE BEEN DEFINED-ALLOTTEES THIS TIME AROUND WOULD GET APPROXIMATELY THE AREAS THEY EACH ARE SEEKING. B. ALLOTTEES WILL BE GRANTED PERIOD OF ONLY UP TO SIX YEARS TO EXPLORE, DISCOVER AND DEVELOP OIL PRODUCTION.

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C. CONTROL DURING THIS PERIOD WOULD BE VESTED IN GOVERNMENT, WITH SELECTED COMPANIES ACTING "SIMPLY AS OPERATORS AND PROVIDING NECESSARY FINANCING".

D. AS MINISTER INDICATED, A "HANDSOME" SIGNATURE BONUS WOULD BE

DEMANDED AS WELL AS USUAL OTHER BONUSES. FRENCH AND ITALIAN AMBASSADORS SEPARATELY TOLD EMBOFF THEIR COMPANIES WERE ASKED FOR \$5 MILLION SIGNATURE BONUS EACH.

E. SPLIT BETWEEN PROCEEDS FROM COST OIL (AMORTIZING EXPLORING COMPANY'S INVESTMENT) AND PROFIT OIL WILL BE, AS MINISTER STATED, 25-75. BUT CONTRARY TO IMPLICATION OF MINISTER, PROFIT OIL WILL OF COURSE BE SHARED BETWEEN EXPLORING COMPANY AND GOVERNMENT. DIVISION NOT DISCLOSED.

F. BEFORE DISCOVERING OIL, ALLOTTEES WILL BE OBLIGED TO SUPPLY CRUDE TO BANGLADESH, AT WORLD PRICES. REZA INDICATED HOWEVER THAT LIMITED OFFICIAL USE

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THIS CLAUSE MAY NOT HAVE TO BE INVOKED. ON RETURN FROM SIX WEEKS IN GULF, HEBUYET AHMED CONFIRMED AGREEMENT REPORTED REF E THAT 200,000 TONS CRUDE WILL BE SUPPLIED FROM ABU DHABI, OVER NEXT FOUR MONTHS. ACCORDING AHMED, THIS MAY BE SIMPLY FIRST TRANCHE IN LONGER TERM ARRANGEMENT. 150,000 TONS LINED UP FROM MOBIL SHARE OF ARAMCO PRODUCTION THROUGH BROKER BUT PRICE NOT SETTLED. SOME 20 OTHER BROKERS REPORTEDLY OFFERING UP TO 1 TO 2 MILLION TONS, BUT AT PRICES THAT RANGE FROM \$11 A BARREL DOWN TO \$8.

G. CRUDE ALSO TO BE SUPPLIED BY ALLOTTEE COMPANY TO BANGLADESH AFTER DISCOVERY OF OIL HERE BUT AT CONCESSIONAL PRICE, NOT "NOMINAL" PRICE AS MINISTER QUOTED AS SAYING IN PRESS INTERVIEW.

5. BDG TERMS "STARTING AT TOP" HAVE BEEN FOUND TOO HIGH BY WIDE NUMBER OF COMPANIES, ACCORDING LOCAL INFORMATION. AMONG THE CANADIANS, ALL BUT SUPERIOR HAVE REPORTEDLY DROPPED OUT. SO APPARENTLY HAS OCCIDENTAL, DESPITE LONG AND DEEP INVOLVEMENT HERE SEEKING CONCESSION FROM PAKISTAN PERIOD ONWARDS. ASHLAND NOT REPORTED ON. ONE SOURCE SAYS THAT AMONG US FIRMS, ONLY ATLANTIC RICHFIELD AND UNION STILL IN RUNNING. ARCO ALLEGEDLY HAD GOTTEN VERBAL AGREEMENT FROM MINISTER AND HAD SHAKEN HANDS ON IT, BUT REZA PUSHING FOR BETTER TERMS, PERSUADED UNION TO OFFER MORE AND THEN GOT MINISTER TO RENEGE ON AGREEMENT WITH ARCO. CFP AND AGIP ARE BOTH OUT, ACCORDING TO THEIR AMBASSADORS BECAUSE OF TOWERING SIGNATURE BONUS REQUIREMENT. LATTER HAD COME IN LATE BUT MADE WHAT

IT FELT A VERY GOOD OFFER, WITH OFFSHORE RIGS AVAILABLE SOON FROM RED SEA. JAPAN UNDOUBTEDLY STILL HANGING IN. YUGOSLAVIA, THOUGH STRONGLY DESIRED BY BDG AS A SOCIALIST-COUNTRY PARTICIPANT, MAY NOT STAY COURSE.

6. BOTH HEDAYET AHMED AND REZA INDICATED THAT ONCE INITIAL AREAS AWARDED, THERE MAY BE FURTHER AGREEMENTS SIGNED. PHILLIPS PETROLEUM FOR EXAMPLE NOT INVITED TO COME FORWARD FOR DETAILED NEGOTIATIONS BUT WAS ASKED TO PROCURE LUBE BLENDING STOCK FOR BDG AND HAS GOT SOME. CARLSBERG PETROLEUM GROUP HAS VISITED AGAIN AND HAS BEEN TOLD THAT SINCE THEIR INTERESTS ARE ONSHORE, THEY SHOULD WAIT UNTIL OFFSHORE AREAS ALL ALLOCATED, WHEREUPON BDG WILL TURN ATTENTION LANDWARD.

7. FOREGOING MAY BE SHARED WITH INQUIRING US OIL COMPANIES PROVIDING NAMES OF
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US COMPETITORS NOT CITED. MAXIMUM DISCRETION URGED
SINCE NEGOTIATIONS HERE HAVE REACHED FINAL, ULTRA-SENSITIVE PHASE.
US COMPANIES WHICH USED TO DROP BY EMBASSY FOR BRIEFING NOW NO
LONGER APPEAR. (CF. PERFORMANCE OF JAPANESE, WHO HAVE INCORPORATED
TOP ECON/POL OFFICER JAPANESE EMBASSY IN THEIR NEGOTIATING TEAM).
BOSTER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, EXPLORATORY DRILLING, OIL FIELDS, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974DACCA02043
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740110-0103
From: DACCA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740569/aaaacjtb.tel
Line Count: 238
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. DACCA 1150 B. DACCA 1413 C. DACCA
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 15 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 APR 2002 by kellew0>; APPROVED <04 FEB 2003 by GarlanWA>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PETROLEUM EXPLORATION: FINAL NEGOTIATIONS UNDERWAY
TAGS: ENRG, BG
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005